

SECTION A

SUMMARY OF REVIEW OF COST OF SERVICE STUDIES

This section includes a summary of the results of the Utilities Department's analysis of the cost of service studies developed by the Company for the test year ending March 31, 2004. It describes the methodology used by the Company and presents Staff's assessment of these studies.

In response to Staff's Data Request, the Company provided copies of its Cost of Service (COS) Studies on a per-book basis; an adjusted basis; and an adjusted basis incorporating the Company's proposed rates. The Studies were performed utilizing the four hour summer coincident peak methodology (4-CP) as previously approved by this Commission. The Coincident Peak allocator was developed based on the Company's system territorial peak demand between the hours of 2 p.m. and 6 p.m. The actual summer peak demand for the test period occurred at 5 p.m. on July 9, 2003.

The Cost of Service Studies provide for the allocation of the Company's rate base, revenues, and expenses to total Company and South Carolina retail. These Studies also separate these items by class of service within the South Carolina retail jurisdiction. The COS per-book data was verified by the Commission's Audit Department.

Development of the Cost of Service Studies entails three major components; functionalization, classification, and allocation. First the rate base, revenues, and expenses were functionalized into appropriate categories relating to production, transmission, and distribution. These costs were then classified according to the characteristics of the type of service to which they correspond, namely the customer, demand and energy components. These cost components were then allocated to the individual classes of service based upon the responsibility of each class for the customer, demand and energy expense. Additionally, costs that were identified as being attributable to a specific jurisdiction or class were directly assigned to that category.

Staff concluded from our review that the methodology applied in constructing these cost studies continues to provide reasonable apportionment and allocation of the Company's revenues, operating expenses and rate base. A summary of the results of the cost study utilizing the Company's adjustments and proposed revenue increase is shown on Utilities Department Exhibit No. 1. This Exhibit shows the rates of return for South Carolina Retail and each class of service within the Retail jurisdiction. Also provided on this Exhibit is an Index of Return that shows the relative contribution of each class as well as that of the total Retail class. Utilities Department Exhibit No. 2 shows these same categories' rates of return and the respective Indexes of Return using Staff's adjustments.